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American Rescue Plan Act 2021
Key Highlights and Potential Implications

March 24, 2021

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The America Rescue Plan (ARP) of 2021, recently passed by Congress, contains provisions that provide significant relief and support to single and multi-employer pension and healthcare plans. While the pension provisions are a relatively small part, $86B, of the massive $1.9T stimulus bill, it may significantly impact certain plans that are struggling, though not necessarily due to the pandemic.

We believe impacted plans should take this reprieve and use it to ensure they are on proper footing in the future. While key highlights are outlined in this communication, questions remain on what to do with existing portfolios since the relief funds must be segregated and invested only in investment grade bonds. While the assistance is good for 30 years, there is no guarantee that the relief will be extended at the end of 30 years, so our conservative view is to assume no further bailout. Though we believe this relief bill is buying some time for the plans in need, it does not necessarily solve the long-term issues.

There may be an unintended consequence driving plans to take extra risk as they feel protected for the time being, but there may also be a magnified lens on what the plans do. If they act overly aggressively in their risk seeking, for example, by eliminating or dramatically reducing fixed income allocations, more scrutiny from regulators is likely. Given this, each plan needs to be evaluated individually to determine the impact of the Act on its status and ability to take risk, which should be a collaborative exercise between plans, their consultants and actuaries.

One of the most significant provisions of the ARP[1] is the creation of a Special Financial Assistance Program (SFAP) for financially troubled multi-employer plans. Specifically the Treasury will transfer monies into a special fund in the Pension Benefit Guaranty Corporation (PBGC). This Program addresses those plans in danger of insolvency and provides for the ability to meet promised benefits for up to 30 years. If a plan utilizes the SFAP, those relief funds will not be required to be paid back.

In addition, eligible multi-employer plans (excluding those who opt for the SFAP) also gain options including the ability to smooth investment and COVID-19 related losses over longer time periods as well as to extend the timeframe for plan rehabilitation by 5 years. These and other relief provisions afford pension plans the time and flexibility to assess and manage the investments, bargaining and other related factors needing attention to improve the plans status.

Single employer plans will see some relief as well. Among the provisions geared to help single employer plans are: the period to amortize funding shortfalls is extended from 7 years to 15 years as well as an extension of the Interest Rate Stabilization mechanism.

The investment implications resulting from the ARP will likely result in additional demand for long duration corporate and treasury securities.

- For a multi-employer who participates in the SFAP, the relief funds must be segregated from the rest of the plan assets and invested solely in investment grade bonds
- For single employer plans, given the various relief actions, plans would potentially be able to reduce their minimum required contributions. The extent of the funding relief may allow Plan Sponsors to target closing the funding gap over a longer period of time vs. investing aggressively today to close that gap. The end result may see an increase in LDI and/or cash flow matching strategies to mitigate risk

Again, this relief does not solve the great dilemma troubled pensions face in the long term, but it provides much needed support to improve their future chances of staying viable and delivering on the promises made to millions of workers. Each pension plan has its own nuances and challenges. This is why we reiterate the importance of working together with your Graystone investment consultants to help improve future outcome in light of this support.

[1] Full plan source: https://www.congress.gov/bill/117th-congress/house-bill/1319/text

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CRC3505580 03/21